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Namibia: Economic Prospects [redacted]

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An Intelligence Assessment

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Namibia: Economic Prospects [redacted]

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An Intelligence Assessment

Information available as of 15 June 1982 has been used in the preparation of this report.

The author of this paper is [redacted] Office of African and Latin American Analysis. Comments and queries are welcome and may be directed to the Chief, Southern Africa Division, ALA [redacted]

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This report has been coordinated with the National Intelligence Council and the Directorate of Operations. [redacted]

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Namibia: Economic Prospects

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Key Judgments

The nature of a political settlement in Namibia will largely determine postindependence economic policies, but we believe that even a regime dominated by the Soviet-backed South-West Africa People's Organization (SWAPO) would have compelling reasons to retain close economic ties with Pretoria. Control over Namibian investment, foreign trade, transportation, and skilled manpower gives South Africa a virtual stranglehold on the narrowly based modern sectors of the economy. Because Namibia has little near-term prospect of lessening this economic dependence, any new government short of an extreme leftist regime is likely to exercise restraint toward Pretoria.

Economic prospects for Namibia over the next year or so are poor, and we believe performance is unlikely to improve whether or not independence is achieved soon. There has been no economic growth for three years; the key mining, fishing, and agricultural sectors remain depressed as a result of political uncertainty, weak world markets, and drought.

Over the longer term, the modern sectors of the economy, because of their heavy export orientation, will continue to be vulnerable to events beyond Namibia's control. In addition, the lack of skilled manpower, the small domestic market, and serious deficiencies in public works and services will restrain development and the economic and political integration of the widely scattered population.

An independent Namibia will require large infusions of international aid to maintain the modern economy and to satisfy black expectations for land, jobs, education, and housing. South Africa already has raised the question of the West—in particular the United States—sharing the burden of providing assistance to an independent Namibia. A multidonor Western commitment, such as the one organized for Zimbabwe, probably would be an adjunct to an internationally sanctioned Namibian settlement and entail US leadership.

We feel that, even under a SWAPO regime, Western assistance would probably increase prospects for moderate economic policies, continued private investment, and political stability. If moderate approaches are initially adopted but fail to satisfy black expectations, however, the result—should SWAPO be in power—would probably be a turn to radical policies. These would include the nationalization of foreign enterprises and

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would cause economic disruption, a decline in foreign private investment, and an exodus of whites—whose skills will be essential for some years to the modern sectors of the economy.

Economic difficulties in Namibia, whether because of heavyhanded treatment by Pretoria or a real or perceived insufficiency of Western assistance, could drive even a relatively moderate black majority regime to seek closer relations with the Soviet Union and its allies. This would almost certainly be the result under SWAPO rule.

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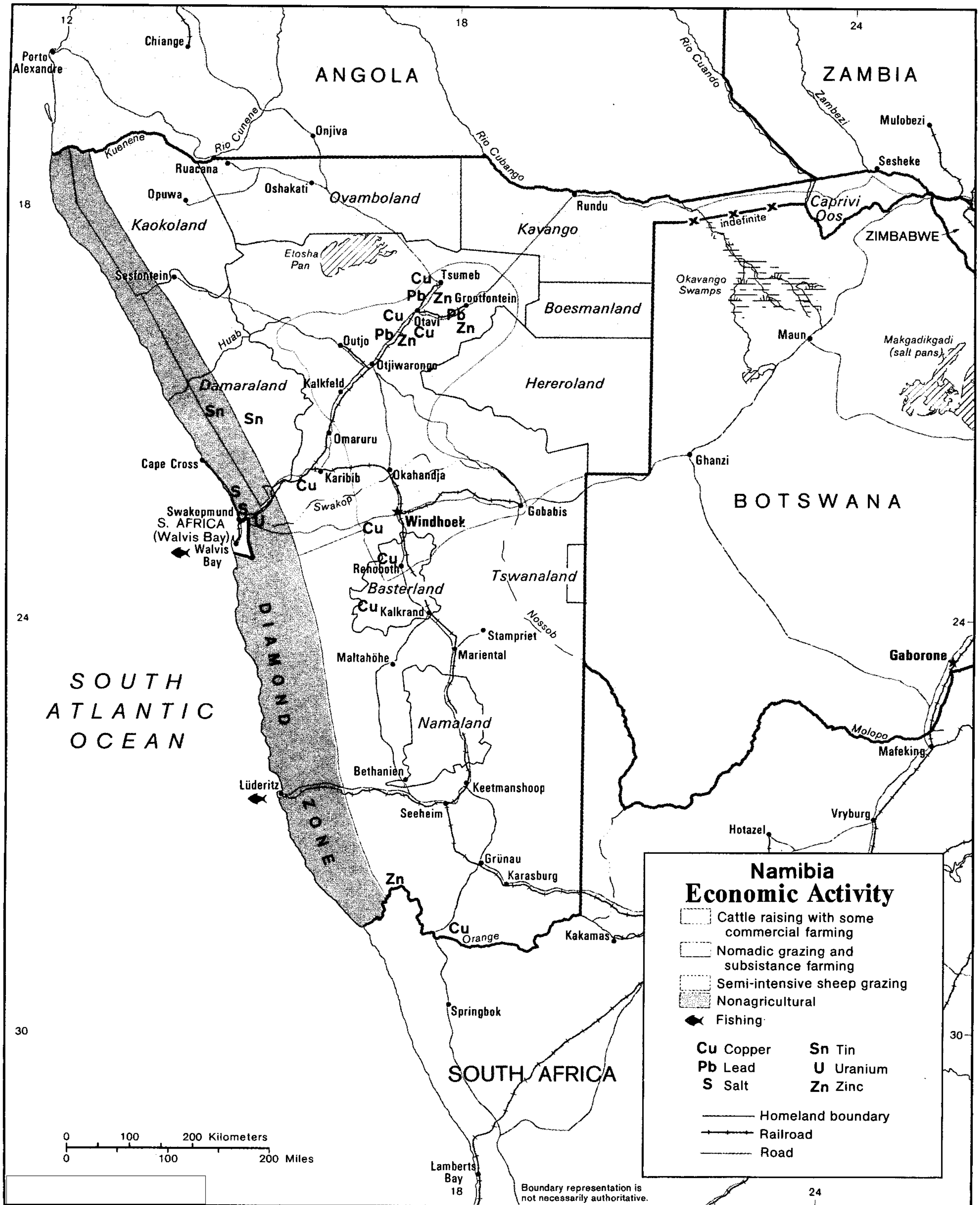

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Namibia: Economic Prospects

Structure of the Economy

South African investment, technology, and management have built an economic beachhead for whites in Namibia that is narrowly based in mining, fishing, and ranching. Beyond this beachhead, the Namibian economy—despite rich natural resources—is hampered by a variety of weaknesses that dampen prospects for growth and development.

Key among Namibia's limitations is the lack of a skilled nonwhite labor force. This results from South African–imposed policies that fail to provide education and job training to blacks, restrict black labor mobility, and make the economy dependent on South African and other white, skilled manpower.[1]

The modern sectors draw cheap, unskilled labor from rural areas, where the majority of the more than 1 million nonwhites live. Unskilled black workers, mostly from Ovamboland in the north, are permitted to work only on short-term contracts as temporary migrants. These workers account for about half of the roughly 200,000 workers in the nonagricultural labor force.

Nearly half of Namibia's 71,000 whites are South African civil servants, skilled technicians, and their dependents, who run the government bureaucracy and operate and maintain the infrastructure. Most of the other whites provide the managerial and technical expertise to run the modern sectors of the economy.

Sustaining modern economic operations in the narrow, white economy, administering the rest of Namibia, and providing bases for operations against the insurgency of the South-West Africa People's Organization (SWAPO) have entailed substantial increases in the scale of Namibian public spending. Its share in national expenditure has increased even more rapidly over the last few years as recession has taken its toll on the modern economy. At present, public spending probably accounts for over half of gross national expenditure.

Key Sectors

Mining. Mining of extensive reserves of diamonds, uranium, copper, lead, tin, zinc, salt, and vanadium is Namibia's leading industry, accounting for at least two-thirds of total exports and over 60 percent of all domestic tax revenue. Despite its capital intensity, which causes it to offer proportionally less employment than most other nonagricultural sectors, mining still provides employment for about 20,000 black workers. The wages of the workers, in turn, contribute significantly to the cash income of more than 100,000 of Namibia's 1.25 million inhabitants, primarily in Ovamboland.

The mining industry, which includes various processing facilities, has benefited from substantial private investment by South African and Western interests. The investments are primarily in diamond and uranium production, the most important mining activities. Namibia produces an average annual output of 1.5 million carats of gem diamonds. Its alluvial diamond deposits are among the world's richest, with 98 percent of the recovered stones being of gem quality and commanding a higher average price per carat than any other diamonds in the world. Namibia's uranium production—nearly equal to that of South Africa and entirely from the world's largest uranium mine—is shipped to South Africa for reexport. Namibia produces about one-sixth of the world's uranium, but the ore is of low grade and is relatively costly to extract.

[1] A Western authority on Namibia has estimated that there are, at most, 300 university graduates, five lawyers, and five doctors among nonwhite Namibians; many of these reside outside the country.

Table 1

Namibia: Leading Mineral Investors [a]

Enterprise	Major Owners (Percent Share)	Nationality
Consolidated Diamond Mines of South-West Africa	DeBeers Consolidated Mines (100)	South Africa
IMCOR Zinc (lead, zinc)	ISCOR [b] (100)	South Africa
Klein Aub Copper Co.	General Mining and Finance Corp./Federale Mynbou (100)	South Africa
Oamites Mining Co. (copper, silver)	Falconbridge Nickel (75)	Canada
	Industrial Development Corp. (25) [b]	South Africa
Rossing Uranium Ltd.	Rio Tinto Zinc Corp. (55.5)	United Kingdom
	Industrial Development Corp. (13)	South Africa
	General Mining and Finance Corp. (7)	South Africa
	Minatome, SA (10)	France
South-West Africa Co., Ltd. (lead, vanadium, zinc)	Anglo American Corp. (44)	South Africa
	Consolidated Goldfields Ltd. (43)	United Kingdom
Tsumeb Corp. of South-West Africa, Ltd. (copper, lead, zinc)	Newmont Mining Corp. (30)	United States
	American Metals Climax Corp. (30)	United States
	Union Corp. (9.5)	South Africa, others
	O'Kiep Copper Co. (9.5)	South Africa, others
Uis Mining Corp. (tin)	ISCOR [b] (100)	South Africa

[a] These enterprises represent most of the foreign investment in Namibia. In some cases total shares may not add to 100 percent because minor owners are omitted.
[b] State corporation.

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Agriculture. Namibian farming and animal husbandry, which employ about 60 percent of the labor force, do not yield enough output to feed the population adequately. As a result, Namibia relies heavily on South Africa for cornmeal and wheat flour, dietary staples of the nonwhite population. Subsistence agriculture—primarily cultivation of millet, sorghum, and corn, with some livestock raising—suffers from the tribal homelands policy imposed by Pretoria. Most areas designated for nonwhites have poor soil and little water, although some areas in the better watered and fertile northeast are often self-sufficient in grain crops. The Kunene River, however, supports a trial irrigation scheme in Ovamboland that could be expanded when peace returns to the region.[2] Only limited grazing land exists within most homelands—Basterland is an exception—and this seriously constrains livestock raising by Africans. 25X1

Commercial agriculture is limited to the white-controlled ranching sector which, except during periods of drought, is highly productive. Livestock raising

[2] Namibia's only permanent rivers—the Kunene, the Okavango, the Zambezi, and the Orange—form parts of its northern and southern borders. 25X1

provides beef for export, 75 percent of which is usually shipped on the hoof to South Africa, with the rest processed for export to Western Europe. The arid regions of southern Namibia are ideal for raising the hardy Karakul breed of sheep, which is the only economically viable form of agriculture for the region. Namibian pelts usually supply over 50 percent of the world market for luxury, karakul skins. [redacted]

Fishing. Although depressed in recent years, fishing has historically been Namibia's second-leading industry. Lobstering and a few fisheries are located at Luderitz, but most of the fishing and fish processing industry is located within the South African enclave at Walvis Bay. Virtually all of the catch is taken from Namibian coastal waters. A 200-nautical-mile exclusive fishing zone was enacted in 1981, but never enforced because of an inability to mount effective patrols. [redacted]

South African–owned fish factories at Luderitz and Walvis Bay generally employ up to several thousand nonwhite migrant workers during the fishing season, but employment is dependent on the annual catch. Very little fish is consumed locally, and most fish products are exported to South Africa, Europe, and the United States. [redacted]

Transportation and Utilities. Namibia's transport, electric power, water, and communications facilities are among the most sophisticated in Sub-Saharan Africa. Designed, however, to serve only the major towns and economically productive regions, they are inadequate for the economic and political integration of the widely scattered population. [redacted]

Rail and road transport is especially deficient in the relatively populous north, but some road improvements have been made by the South African military to support its numerous installations along the Namibia-Angola border. The Caprivi region in the northeast, however, is virtually inaccessible by land from the rest of Namibia. [redacted]

Electric power for the national grid is generated primarily by a coal-fired thermal station in Windhoek, operated by a parastatal corporation. This is supplemented by diesel generators in some towns. In addition to those facilities, private mining companies retain some auxiliary capacity for their own use. All of Namibia's power facilities are designed and situated to support the modern sector and have had little or no direct impact on nonwhite living standards. [redacted] 25X1

The Kunene hydroelectric project on the Angolan border near Ruacana could provide all of Namibia's electric power needs—as well as a surplus for sale to South Africa. The project will, however, remain an unreliable power source so long as the SWAPO insurgency and troubled relations with Angola continue. [redacted] 25X1 25X1

Manufacturing. Namibia's highly developed modern sectors mask serious gaps—beyond those in public works and services—that limit its growth potential. Most important among these is the small size of the domestic market, which tends to discourage any broader industrialization. [redacted] 25X1 25X1

Manufacturing industry today consists almost entirely of food processing—primarily fishoil and fishmeal production and beef and lamb packing—and has never contributed more than about 5 percent of national output. With a population of about 1.25 million, most of whom earn less than $300 a year, there is little incentive to develop new product lines for domestic sale. As a result, up to one-fourth of Namibia's gross domestic product is repatriated as profits, royalties, and other remittances—mostly to South Africa—and is not reinvested. The problems of the small domestic market are exacerbated by the dominance of nearby South African producers in a wide range of manufacturing activities. As a result, Namibian domestic commerce consists largely of the retailing and servicing of South African and other imported goods. About 95 percent of all goods consumed and invested in Namibia are imported. [redacted] 25X1 25X1 25X1

Dependence on South Africa

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The territorial government in Namibia depends on South African aid to help defray the considerable costs of administering the vast territory and of construction and development programs. Pretoria's budget assistance to Namibia has risen sharply in recent years. Details of Namibia's fiscal year 1982/83 budget are not available, but in 1981/82 (1 April to 31 March) Pretoria contributed at least $650 million—over 70 percent of Windhoek's budgeted revenue.[3] The cost of South African counterinsurgency operations, not included in the Namibian budget, may exceed an additional $400 million annually. An unknown but probably large portion of defense expenditures is for military construction, which almost certainly provides substantial employment and income opportunities for Namibians. [redacted]

Besides South African money, food, and manpower, the Namibian economy depends on close ties to South Africa that will probably continue after independence:

- Walvis Bay, which in all likelihood will remain under South African control after independence, is the only deep water port on the Namibian coast, and access to it is crucial for mineral exports. The small port of Luderitz, which will belong to independent Namibia, can only handle shallow-draft vessels, is poorly equipped, and is distant from most mining centers.

- Namibia's rail network, which is owned and operated by Pretoria, is connected only to South Africa. Other existing or proposed regional transport links offer no foreseeable prospects for easing Namibia's trade and transport dependence on South Africa.

- South Africa supplies about 90 percent of Namibia's imports, acts as an entrepot for about two-thirds of all Namibian exports, and is the final destination for about 10 percent of Namibian sales. Freight cost advantages alone will continue to make South Africa the most attractive trading partner and conduit for most Namibian trade. [redacted]

In addition, Namibia depends on South Africa for commercial fuels and vital electric power hookups. Exploitation of Namibia's coal deposits is thus far uneconomic. No domestic petroleum reserves have been found although offshore areas have not been fully explored. Namibia has no refinery, so all petroleum products must be imported. Partly for security purposes, southern Namibia is linked to the South African power grid, and an additional link will be established this year which will allow local thermal stations to be held in reserve for emergency use. [redacted] 25X1

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Recent Performance

Since the late 1970s, the Namibian economy has suffered from a virtual cessation of private investment (prompted by uncertainty over the outcome of international negotiations for independence), a severe drought, steadily rising import unit costs, and slack world markets for primary commodities. The result has been declining real output and increased inflation. Average annual growth of over 4 percent in the 1970s on the basis of a mineral boom gave way to an average decline of about 8 percent after 1978 . Meanwhile inflation continued to range between about 10 and 20 percent. The post-1978 recession was especially important because an annual growth of 6 to 8 percent is estimated to be necessary simply to employ blacks entering the labor market. As a result of these adverse trends, unemployment has now reached over 15 percent, according to Namibian press reports. [redacted] 25X1

Weak world markets have especially hurt the mining industry. The depressed world demand for diamonds, especially for stones of gem quality, has caused DeBeers to reduce its Namibian output. Mineral earnings would have been even worse if uranium production had not begun in 1976 and accelerated thereafter. Only the fulfillment of long-term, fixed-supply contracts has made uranium production profitable in the face of a depressed world market. Prior to the recent slide, minerals often accounted for over 40 percent of national income—a proportion that has now fallen to about one-third. [redacted] 25X1

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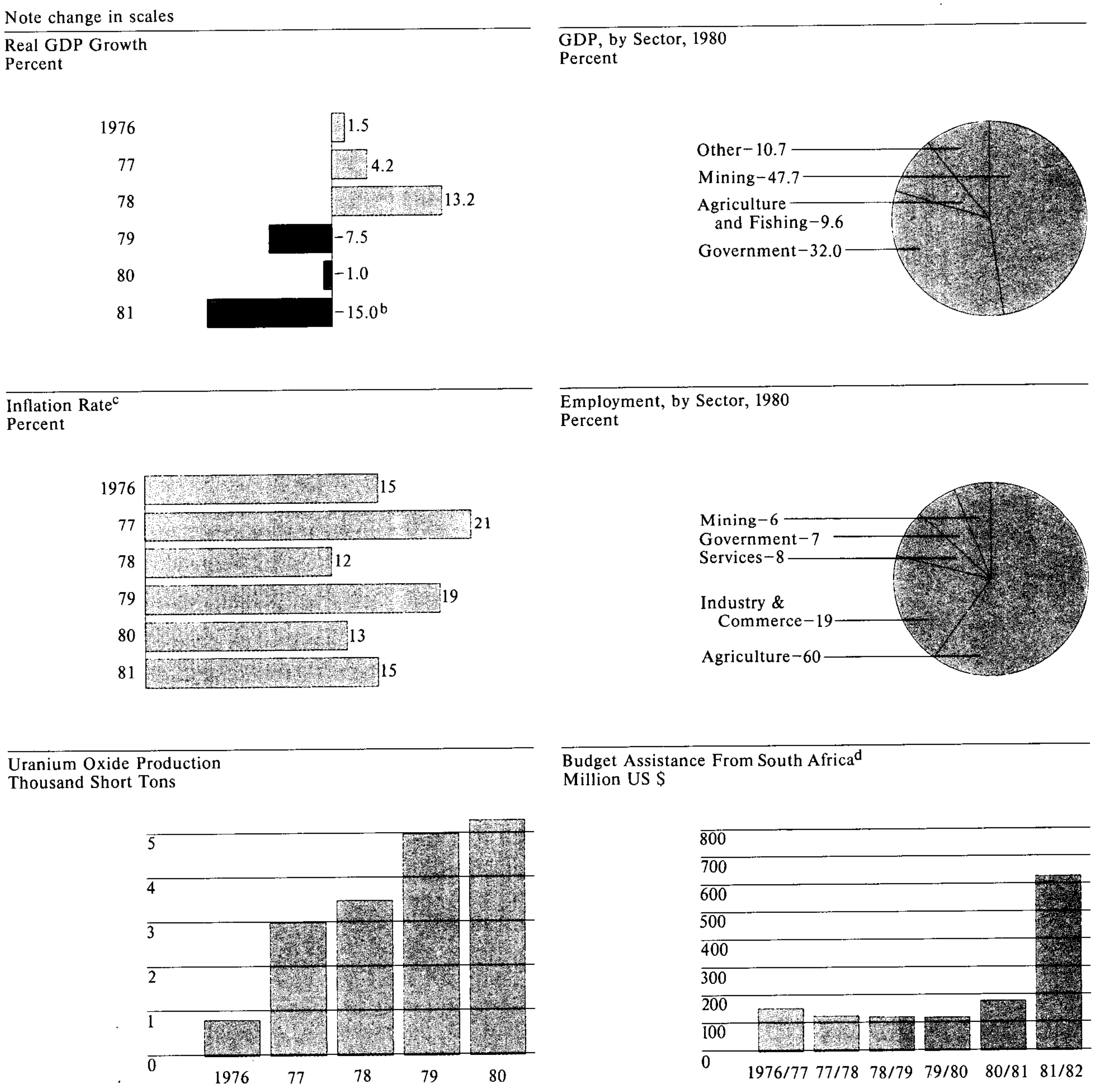
Fishing has also suffered. During the 1970s, overfishing by foreign fleets and local mismanagement reduced the catch that supports the domestic canning industry. By 1981, the Namibian fishing fleet was largely idle, most canneries were closed, and several thousand migrant workers were unemployed. [redacted] 25X1

[3] About two-fifths of this assistance was allocated from revenues of the South African Customs Union (SACU), which includes Botswana, Lesotho, and Swaziland. Although Namibia is not an official member of this union, for revenue-sharing purposes Pretoria treats it like one. In recent years, Pretoria has used artificially inflated shares of SACU revenue as a hidden form of foreign aid to member states, thereby encouraging their continued membership. [redacted] 25X1

Figure 2

Namibia: Economic Indicators[a]



[a] Most data are estimated.
[b] Preliminary data.
[c] Based on an implicit GDP deflator compiled by US Embassy, Pretoria.
[d] Data are for fiscal years beginning 1 April of the year stated. Not including spending for police.

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Table 2 Thousand Metric Tons

Namibia: Fish Catch

	1975	1976	1977	1978	1979	1980	1981 [a]
Sardines	545.4	447.3	194.3	45.2	27.7	10.2	51.4
Anchovies	194.4	94.1	124.5	355.1	272.7	164.0	196.4
Other	19.4	31.0	83.5	9.2	25.0	37.7	
Total	**759.2**	**572.4**	**402.3**	**409.5**	**325.4**	**211.9**	**247.8**

[a] Preliminary.

[redacted] 25X1

Commercial and subsistence farming have been hit hard by prolonged drought and by the sharp drop in world Karakul pelt prices. Farm output, which fell by nearly one-third during 1976-80, continued to slide in 1981. Namibia's cattle herd fell by one-third last year alone, while the number of sheep and goats dropped by a quarter, because of drought-induced slaughter and the transfer of some livestock herds to South Africa for grazing. In March, rains returned to the northern cattle-raising regions, bringing the prospect of some return of stock from South Africa. Still, drought continues in the south. By the end of this year's dry season, Karakul herds are likely to be at less than half the level of two years ago. [redacted]

Outlook: Toward Independence and Beyond

Continuing Economic Problems
Economic performance is unlikely to improve markedly for some time, regardless of the outcome of independence negotiations:

- It will take several years to rebuild livestock herds and fish stocks, although fishing is showing some signs of recovery. The South African Meat Board, in order to protect domestic ranchers, has set reduced import quotas for Namibian beef, which will further slow the rebuilding of cattle herds.

- [redacted] the uranium market is expected to remain depressed through the 1980s.

- Business publications increasingly call attention to the risk of a deepening diamond slump as stockpiling costs mount and major new Australian output further depresses prices.

- We believe that private foreign investment will continue to be deterred by the political uncertainty that is likely to linger even after independence. This will hamper productivity and cloud the outlook for the postindependence balance of payments. [redacted] 25X1

The longer the time needed to resolve the terms for independence, the greater will be the extent of economic stagnation or decline. Based on experience in both Zimbabwe and Namibia, we feel that the white population will continue to decline as more whites grow weary of the security threat posed by guerrilla infiltration and more dependents are sent to South Africa for schooling. The number of whites in Namibia fell by 20 percent over the last decade—mostly in the past few years. The number of farms and businesses being offered for sale suggests that more whites—mainly older farmers, small businessmen, and dependents—are preparing to leave. [redacted] 25X1

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Thus far, most of the white exodus has been among farmers or dependents but small businessmen and merchants will probably increasingly seek escape from the collapsing economy. It appears from the volume and duration of job vacancy notices in the Namibian press that both business and government have found recruitment increasingly difficult. Residential and other private construction in Windhoek

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has already been at a near standstill since the late 1970s. Another serious consequence of white departures has been increases in black unemployment, as many servants, construction workers, and farm laborers lost their jobs.

Partly as a result of South Africa's own economic recession, several cabinet members in Pretoria have openly complained about the burden of its financial support for Namibia. Uncertainty about the future increases South African reluctance to enlarge its stake in fixed investment in Namibia, already estimated at $3.2-4 billion. While the amount of Pretoria's budget subsidy will apparently be virtually unchanged for fiscal year 1982/83, it will represent a reduction in support for Namibia of about 13 percent after adjusting for inflation. Transportation, utilities, schools, and other public works will be seriously affected by announced spending cuts of more than 40 percent in some parastatals and by cuts in other publicly financed construction spending. Construction of a new international airport under way near Windhoek has already been halted.

Postindependence Challenges

Urgent Problems. Any new majority government in Namibia will be pressed to move quickly to satisfy minimal black expectations. To consolidate popular support, it will—in our view—want to be seen as being responsive to calls for land redistribution, higher wages, and rapid increases in spending for education, housing, and health care.

These demands will be given urgency by the large numbers of refugees and guerrillas who will return to Namibia after independence seeking jobs and other benefits. Independence probably will also bring unrestricted migration to urban and mining centers, sharply raising Namibia's presently low level of urbanization. This, in turn, will heighten demands for better public services; it will also worsen food shortages, as former subsistence farmers become market dependent. Rapid growth of the black population—averaging about 3 percent annually—has already resulted in a large proportion of young people who will be a continuing source of demand for jobs and public services. Rivalry among nonwhites, especially between the numerically dominant Ovambos and the nine other ethnic groups, could also complicate the allocation of limited public resources.

At the same time that it responds to often competing pressures from blacks, any new government probably will be pressed to secure the confidence of white managers, bureaucrats, technicians, and ranchers. Although the UN has conducted a public administration training program in Zambia for Namibians in exile, only a relatively small number of nonwhites are ready to move into the middle and lower ranks of the civil service.

Namibian officials privately estimate that a white population of about 50,000, including dependents, will be necessary, at least in the early years of independence, to keep the existing economy running satisfactorily. White fears about the future will depend on the nature of a political settlement and on the ideology, leadership skills, and social sensitivity displayed by key black politicians.

Many of these problems in retaining skilled whites also faced Zimbabwe at independence. There, however, the pool of skilled black labor was substantially larger than in Namibia, and the attractions of a large market and good investment opportunities drew a strong aid response from the West. For these and a variety of other reasons, most whites in Zimbabwe were willing to wait out the initial changes following independence. Most of Namibia's whites hold South African citizenship, and we believe that the combined spurs to emigration will be substantially greater at independence in Namibia—especially under a SWAPO government.

Namibia will also be under strong pressure at the outset to find new sources of internal revenue, whether South Africa sharply reduces its assistance after independence or—at the extreme—ends it altogether. Because of their volatility, mineral earnings will remain an uncertain source of revenue. New sources of domestic revenue are limited, and Windhoek will have little room simultaneously to raise taxes and improve the investment climate.[4]

[4] One source of revenue that may soon become available is taxation of the Rossing uranium mine. Liberal tax credits for investment have allowed Rossing to avoid taxes since production began in 1976. Tax contributions will probably begin by 1983. By itself, however, this revenue source would only go a small way toward covering Namibia's postindependence needs.

Sizable foreign financial and technical aid will be necessary to permit modest employment gains, to avoid recurring fiscal crises, and to cover limited social and development expenditures that would buy time for more substantial improvements. Continued heavy dependence on imports will highlight the need for strong export performance to earn foreign exchange. Access to compensatory financing by the International Monetary Fund may be crucial in periods of wide fluctuations in export earnings.

Probable Policy Responses. Any majority rule government in Namibia probably would move quickly to take advantage of the general euphoria over independence by undertaking "showpiece" measures aimed at satisfying minimal black expectations. These steps, which could be implemented quickly and relatively inexpensively, would be accompanied by considerable publicity. They might include:

- The immediate end to segregation in schools, hospitals, and other public facilities, and the elimination of ethnically based governments that have controlled such services below the national level.

- A mass literacy campaign and the announcement of a rural development program to include, for example: new primary schools; health care clinics; and upgrading of roads, bridges, and wells in the countryside.

- The redistribution of unused land—especially formerly white-owned farms—as a symbol of land reform.

- The appointment of blacks to highly visible posts in the civil service. (In general, however, we believe that a majority rule government would move gradually in this area in order to retain skilled whites necessary for the maintenance of public services.)

Signs of serious commitment to an effective long-range strategy—for raising productivity and for integrating and modernizing the subsistence sector—would include priority allocation of incoming aid to enhancing black job skills and to developing a system of agricultural extension services. The thrust of the new government's development strategy could also be judged by the extent to which Windhoek is prepared to resist counterproductive food subsidies for consumers and to exercise rigorous monetary and fiscal restraint. Any black-dominated regime—and especially one led by SWAPO—would find, however, the political pressures for faster and more direct benefits to the poor hard to balance against such gradualism. 25X1

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The SWAPO Threat. We believe that a relatively small number of "showpiece" measures would satisfy most blacks during the first year or so of independence. The underlying weaknesses and persistent difficulties of the Namibian economy—if not ameliorated by foreign assistance—would, however, eventually lead to widespread popular disaffection. Deep and widespread public dissatisfaction—which might translate into strikes, protest demonstrations, or tribal clashes—could prompt a turn to more radical policies, especially by a SWAPO regime. SWAPO's move to the left would be especially strong if former guerrilla fighters joined government critics. We expect that the SWAPO reaction would be increased domestic repression and the nationalization of private land and businesses, as well as a more centralized economic management. SWAPO has already stated publicly that nationalization of transportation and mines is one of its ultimate objectives. 25X1

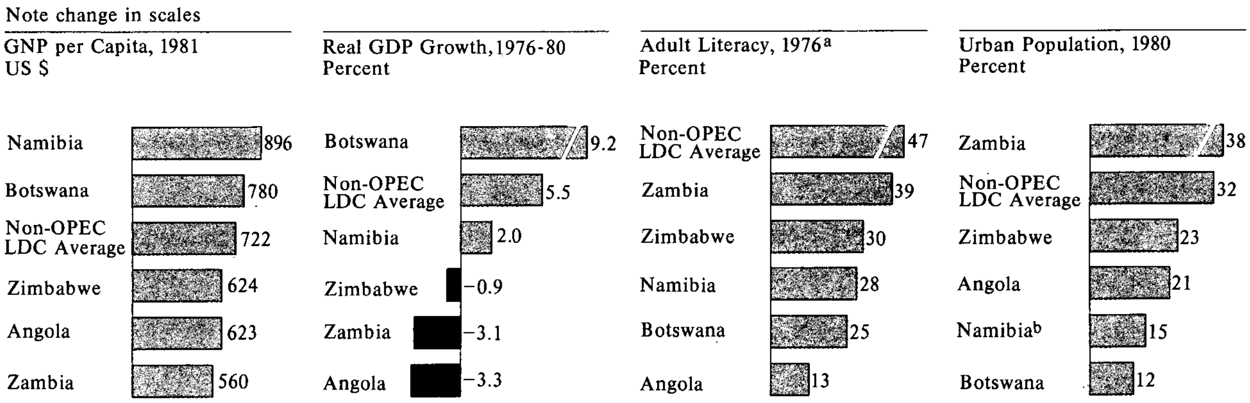
Any political and economic instability associated with an expansion of SWAPO power would also work against the Namibian regime's ability to retain whites and recruit expatriates. This would further jeopardize investor confidence as well as relations with Pretoria. Moreover, strong moves against foreign investments would probably trigger economic retaliation by South Africa. 25X1

Regional Ties—The Pivotal South African Role 25X1

Two regional elements affecting Namibian economic progress will be continued cooperation with South Africa or costly and less profitable development coordination with neighboring black states. Although a

Figure 3

Namibia: Economic Comparisons



[a] For blacks.
[b] Estimated.

Footnote: Namibia's GDP per capita is about one-third higher than the GNP figure because it includes repatriated profits, royalties and other foreign remittances by the large international business sector.

[redacted] 25X1

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black-ruled Namibia will probably become a member of the Southern African Development Coordination Conference (SADCC),[5] such regional cooperation is not likely to be a viable alternative to continued economic dependence on South Africa any time soon. The economies of many neighboring countries are troubled and could not provide the huge development expenditures that Namibia would require, especially for infrastructure projects such as roads, schools, and water systems. These needs would dwarf the more than $500 million in currently unfulfilled Western pledges to the SADCC. [redacted]

While we believe Pretoria probably would not abruptly end its budget subsidies nor otherwise try to cripple Namibia's economy at independence, the subsidies will at least be reduced and Pretoria would expect political concessions from a black-led government for any economic assistance it provides. Pretoria's actions toward Zimbabwe and Mozambique demonstrate its willingness to use its economic leverage to signal its displeasure with the actions and rhetoric of its neighbors and to interfere with their efforts to break out of South Africa's economic sphere. [redacted] 25X1

Ownership of Walvis Bay and the degree of South African control in such critical areas as railway rolling stock, technical manpower, and supplies of food and fuel give Pretoria a virtual stranglehold on the Namibian economy—something even a SWAPO regime would have to acknowledge. Any independent Namibian regime will be pressed strongly to accede to Pretoria's demands if it is to enjoy the benefits of economic cooperation with South Africa. [redacted] 25X1

Namibian participation in the South African Customs Union (SACU) would be attractive because it would facilitate the collection of customs duties, maintain

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[5] The SADCC was created in 1980 by nine black-ruled nations in an effort to lessen their economic dependence on South Africa and promote regional development. Members are Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, and Zimbabwe. [redacted]

transport efficiencies, and provide relatively unrestricted access to the South African market. Nevertheless, a SWAPO government might—more for political than economic reasons—choose to operate its own tariff arrangements. While Namibia might then be able to take advantage of lower world market prices for some imports that now come from South Africa, the ability to carry out such substitution would still depend on Namibia's ability to negotiate transportation and tariff arrangements with Pretoria. Moreover, import duties would have to be set at high levels to generate the same revenue currently collected through SACU because of the aid component added by Pretoria to members' shares. This could offset any advantage from lower world prices. In addition, Namibia would also bear the cost of administrative overhead.

Although we believe Namibia will choose to establish its own currency, a postindependence government might also see benefits in joining—with South African concurrence—the Rand Monetary Area (RMA): [6]

- Its currency would be freely convertible, without exchange restrictions, at par with the South African Rand.
- The new currency would be fully backed by the Rand for purposes of international transactions.
- The Rand would also be accepted as legal tender in Namibia.
- Windhoek could earn revenue by depositing its Rand holdings at interest in the South African Central Bank.

A politically motivated decision not to participate would mean sacrificing the membership benefits for a questionable increase in freedom to set credit policies. Namibia's currency—without guaranteed backing by the Rand—would be unlikely to enjoy widespread international convertibility, and its exchange value would probably fluctuate widely because of the volatile prices and earnings of the export commodities upon which it would be based. In any event, multinational firms in Namibia would probably seek arrangements allowing them to continue to do business denominated in the Rand. Without the discipline of RMA controls, Windhoek could more easily succumb to the temptation to overexpand its money supply, leading to inflation and devaluation. 25X1

[6] The Rand Monetary Area includes South Africa, Lesotho, and Swaziland. The latter countries have their own currencies and enjoy the benefits described above that would be available to Namibia.

Implications for the United States

Economic and political stability in an independent Namibia will be important to US interests in southern Africa. They will, however, depend on substantial infusions of Western aid, perhaps on the order of several hundred million dollars annually. South Africa has already raised the issue of the burden of assisting an independent Namibia. We believe that a multidonor Western commitment, such as the one organized for Zimbabwe, will be an adjunct to an internationally backed Namibian settlement and 25X1
probably would require US leadership. 25X1

US willingness to provide economic assistance would probably increase prospects for moderate economic policies, continued foreign private investment, and political stability. Should moderate policies fail to satisfy black expectations, however, the result would be a turn toward radical approaches—quite rapidly should SWAPO be in power. 25X1

Continued economic decline in Namibia, perhaps because of heavyhanded treatment by South Africa or a real or perceived insufficiency of assistance from the West, could drive even a relatively moderate black majority regime to seek closer relations with the 25X1
Soviet Union and its allies. This would almost certainly be the result under SWAPO. Overtures by a SWAPO regime toward its former military backers in Moscow could easily result in a harsh response by Pretoria. 25X1

Although the United States is a leading market for Namibian base minerals, there is no critical US dependence on Namibian resources. Private US economic interests in Namibia are also of limited importance, probably less than $100 million. This investment is concentrated in the Tsumeb Corporation, in which two US firms hold about 60 percent of the equity. It is, however, the largest base minerals producer and one of the largest employers in the territory. 25X1
25X1

South Africa's Economic Assistance and Future Namibian Aid Requirements

Namibia's budget for fiscal year 1981/82 contained several revenue items that Pretoria claimed as budgetary assistance to Windhoek:

	US $ millions
Share of SACU receipts	260.0
The 1981/82 transfer from Pretoria	83.2
Transfer remaining from 1980/81	41.6
Compensation for services taken over from Pretoria	139.4
Loans guaranteed by Pretoria	128.8
Total	**653.0**

In addition to such budgetary assistance, Namibia benefits from South African subsidies for post and telephone services and for the operations of the South African Railways and Harbors Administration in Namibia. All such parastatal services are reported to operate at a loss, but, except for postal services, no data are available to confirm this or to indicate the exact size of the net subsidy involved. It may amount to several tens of millions of dollars. [redacted]

[redacted]

The amount of South Africa's current budget subsidy probably is, in any event, a poor indicator of Namibia's possible future aid requirements because:

- *It includes customs revenue that an independent Namibia would be entitled to receive directly.*
- *It finances a system of redundant ethnic administrations—including disproportionate support for the white community—that will disappear with independence.*
- *It does not reflect the increased social spending requirements—only partly offset by reductions in spending for whites—that independence will bring.*

In addition to changes in spending priorities that cannot be precisely predicted, estimates of future aid requirements are subject to other uncertainties. These include the performance of the economy—therefore, the level of domestic revenue that can be expected from business taxation—and the spending priorities of whatever regime comes to power.

The required level of annual support for the first several years of independence could easily be on the order of several hundred million dollars if the present level of public services and economic performance is to be maintained. Ambitious development plans—such as irrigation to assist traditional agriculture in the north—or poor economic conditions would rapidly increase the requirement.

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[redacted] 25X1